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Financial reports and audited financial statements, and reports of the Board of Auditors

Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Report of the Board of Auditors on the accounts of the United Nations peacekeeping operations and report of the Secretary-General on the implementation of the recommendations of the Board of Auditors concerning United Nations peacekeeping operations for the financial period ended 30 June 2012

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Board of Auditors on the accounts of the United Nations peacekeeping operations for the financial period ended 30 June 2012 (A/67/5 (Vol. II), chap. II), and its observations and recommendations thereon are contained in section II below. During its consideration of the report, the Committee met with the members of the Audit Operations Committee of the Board of Auditors, who provided additional information and clarification. The Committee also discussed the Board's findings with representatives of the Secretary-General in the context of the related report of the Secretary-General on the implementation of the recommendations of the Board of Auditors (A/67/741). The representatives of the Secretary-General provided additional information and clarification, concluding with written responses received on 20 March 2013.

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II. Report of the Board of Auditors on the accounts of the United Nations peacekeeping operations for the financial period ended 30 June 2012

A. General observations and recommendations

2. The Board of Auditors reviewed the operations and audited the accounts of United Nations peacekeeping operations for the period ended 30 June 2012 through visits to United Nations Headquarters and to 16 active field missions as well as an examination of the accounts of 27 completed missions and the 4 special purpose accounts, namely, the Peacekeeping Reserve Fund, the support account for peacekeeping operations, the United Nations Logistics Base at Brindisi, Italy, and the after-service health insurance programme for peacekeeping operations.

3. The Board states that the audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations, as well as with the International Standards on Auditing. It further states that the audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements fairly presented the financial position of the United Nations peacekeeping operations as at 30 June 2012 and the results of operations and cash flows for the financial period then ended, in accordance with the United Nations system accounting standards. The audit also included a general review of financial systems and internal controls and an examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. **The Advisory Committee commends the Board of Auditors for the continued high quality of its report and also welcomes its timely submission, which enabled its consideration during the early part of the Committee's session. The Committee considers that the observations and recommendations of the Board provide important insights in terms of resource and management issues pertaining to peacekeeping operations. In this regard, the Committee continues to draw on the Board's findings to inform its consideration of the respective budget proposals of the individual peacekeeping operations and of cross-cutting issues. The Committee also commends the timely submission of the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors.**

5. The Advisory Committee notes that the Board of Auditors recognizes the efforts made by the Administration to address the concerns it expressed in previous reports and to enhance financial control and management. However, it identified some weaknesses, inter alia, in the governance of the global field support strategy; the implementation of the International Public Sector Accounting Standards (IPSAS); asset management; and procurement. The comments of the Committee on specific findings and recommendations of the Board are contained in section II.C below. While the Committee remains concerned at the continued deficiencies with respect to asset management, as reflected in the report of the Board of Auditors, it notes the improvements in this area and expects that this trend will be maintained in forthcoming financial periods (see also paras. 12 to 15 below).

6. In his report on the implementation of the recommendations of the Board of Auditors, the Secretary-General notes the specific concerns expressed by the

General Assembly in resolution 66/232 B regarding (a) the extent of cancellation of prior-period obligations and the continued high level of obligations raised during the last month of the financial period; (b) weakness in the oversight of procurement; (c) delays in the implementation of all outstanding recommendations of the Board; and (d) the root causes of the recurring issues and measures to be taken. In paragraphs 8 to 12 of the report, he outlines some measures taken to address those concerns.

7. The Advisory Committee notes that the concerns expressed by the Board in its report (A/67/5 (Vol. II), chap. II) pertain to a number of recurrent issues that have been raised in its previous reports. Upon enquiry as to accountability for such shortcomings, the Committee was informed by the representatives of the Board that the root causes of the recurrent issues were:

(a) Insufficient coordination among missions and departments. For example, because some requisitioning offices did not conduct vendor performance evaluations, the Procurement Division was unable to update vendor performance information;

(b) Insufficient monitoring. For example, while the Department of Field Support issued clear instructions requesting missions to check their asset inventories before acquisitions, it did not sufficiently monitor mission compliance with the instruction (see also para. 13 below);

(c) Inadequate accountability. As regards the responsibility for the implementation of its recommendations, the Board noted that only the department was identified in the Secretary-General's report. The Board is of the opinion that assignment of accountability should be to a specific unit and individual, along with specific indicators against which the individual's performance could be evaluated.

8. As concerns the issue of accountability mentioned in paragraph 7 (c) above, the Board indicated that, except in exceptional circumstances, it did not consider that it had a role in identifying individuals who were accountable for specific issues or in prescribing, in its recommendations, actions to be taken by the Administration against individuals for non-compliance with established regulations. **The Advisory Committee reiterates its view that ensuring that appropriate action is taken in respect of such weaknesses is an integral component of an effective accountability framework.** The Committee has made specific observations and recommendations in its report on accountability (A/67/776) and comments further on the issue in its report on cross-cutting issues related to United Nations peacekeeping operations (A/67/780).

B. Audit opinion

9. In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations peacekeeping operations as at 30 June 2012 and their financial performance and cash flows for the period then ended, in accordance with United Nations system accounting standards. Without qualifying its opinion, the Board draws attention to note 14 of the financial statements, which discloses, for the first time, the $889 million incurred cost of the construction of buildings and structures by the peacekeeping missions, or "self-constructed" assets.

10. Upon enquiry, the Advisory Committee was informed that the constructed assets included buildings and infrastructure assets such as roads, parking areas and airfields. The Committee was also informed that the United Nations-African Union Mission in Darfur (UNAMID), for example, had incurred some $31.32 million in the construction of an office building and $87.40 million in the construction of staff accommodation. While those amounts represented the incurred construction cost of the assets, the representatives of the Board indicated that the International Public Sector Accounting Standards (IPSAS) required the disclosure of such assets at "fair value" in the financial statements. The Committee was informed that, to that end, a methodology was being developed by the Department of Field Support to identify the fair value of all self-constructed assets in peacekeeping operations.

11. **The Advisory Committee notes the efforts being made by the Secretary-General to determine the fair value of self-constructed assets. The Committee expects that every effort will be made to complete the exercise in time for the adoption of IPSAS on 1 July 2013.**

C. Main findings and recommendations of the Board of Auditors

Asset management

12. In paragraph 28 of its report, the Board notes improvements in the management of property and the accuracy of inventory, in particular the increased percentage of non-expendable property verified and the reduced percentage of non-expendable property in the "not found yet" category. The Board notes, however, the absence of a unified and standard mechanism for the recording of the cost of self-constructed buildings, insufficient assurance over the value of non-expendable property and expendable property, a high-risk of loss/wastage from unused non-expendable property and deficiencies in asset disposal activities at liquidated missions.

13. In table II.3 of the Board's report a list is provided of never-used non-expendable property in 13 missions that had been in stock for more than one year as at 30 June 2012, valued at a total of $83.5 million. The Board indicates that $9.97 million worth of that non-expendable property was in bad condition or pending write-off and disposal, while $13.53 million worth had never been used for more than three years, which indicates a high risk of loss or waste. One of the main reasons identified by the Board for missions holding never-used assets was that neither Headquarters nor the missions had taken full account of assets already in stock when making requisitions. In his report on the implementation of the Board's recommendations, the Secretary-General indicates that the level of never-used non-expendable property as at 30 June 2012 represented a 39 per cent reduction in terms of value from $137 million at the end of the previous financial period to $84 million (A/67/741, para. 34). In addition to other measures, he indicates that an asset management section would be established at the Global Service Centre to oversee and coordinate acquisition planning and inter-mission transfers of non-expendable property (see also sect. IV of the Committee's report on cross-cutting issues related to United Nations peacekeeping operations (A/67/780)).

14. **While noting the reported improvements in the management of property and reliability of asset data in preparation for the implementation of IPSAS, the Advisory Committee remains concerned at the deficiencies observed by the**

Board of Auditors in this area and urges the Secretary-General to intensify his efforts in devising measures to address them.

15. In paragraph 32 of his report on the implementation of the Board's recommendations, the Secretary-General indicates that, based on industry best practices and in line with the IPSAS policy framework, the Department of Field Support also plans to introduce "A-B-C analysis" to strengthen the management of expendable property. Upon enquiry, the Advisory Committee was informed that A-B-C analysis was a practice in cycle counting by which items were ranked as A, B or C based upon a specific driver, such as transaction frequency, transaction volume or value. Items classified as A were counted more frequently than items classified as B and items classified as B were counted more frequently than items classified as C. It was further indicated that the practice did not entail discontinuation of the physical verification of assets, but rather more frequent counting of certain high-value, high-turnover items. Upon further enquiry as to why this approach was being planned for peacekeeping missions only and not throughout the Secretariat, the Advisory Committee was informed that, while A-B-C analysis could be used by all Secretariat entities, its application required the support of enabling information technology support tools, such as the mission-based Galileo inventory management system. **The Committee welcomes the planned introduction of A-B-C analysis to better manage the large and highly complex inventories of expendable property in peacekeeping missions. The Committee recommends that the Secretary-General be requested to report on the results of this initiative in future reports on the implementation of the Board's recommendations.**

Procurement and contract management

16. In paragraphs 70 to 94 of its report, the Board of Auditors notes various weaknesses in procurement and contract management, such as lack of clear criteria for vendor invitations (para. 78 (a)), insufficient time allowed for the submission of bids (para. 78 (c)) and misuse of the "eight-month rule" (para. 82 (a)). In response to the observation regarding insufficient time allowed for bids, the Secretary-General emphasizes, in paragraph 49 of his report, that solicitation timelines in the Procurement Manual are only a recommendation and that procurement, in certain markets such as sea and air freight, is done on a spot basis. Upon enquiry, the Advisory Committee was informed that solicitations issued by the Logistics and Transportation Section of the Procurement Division for short-term air charters, freight forwarding and movement of contingent-owned equipment necessitated short timelines because the bidders would not leave such expensive assets as ships or aircraft idle for the time required to complete a normal solicitation. **The Committee notes the justification for short solicitation timelines and requests that appropriate modifications be made to the Procurement Manual to cover such cases.**

17. In his report, the Secretary-General mentions the role of the Regional Procurement Office in working with requisitioning offices to develop joint acquisition plans. Upon enquiry, the Advisory Committee was informed that the Procurement Division had established the Regional Procurement Office in Entebbe as a pilot project to consolidate requirements of field missions in East and Central

Africa[1] and the special political missions. The Committee was also informed that the services of the Office had recently been expanded to the field missions in West Africa.[2] The observations and recommendation of the Advisory Committee with regard to the Regional Procurement Office are contained in paragraphs 10 to 15 of its report on United Nations procurement activities (A/67/801).

Budget formulation and management

18. In paragraphs 95 to 136 of its report, the Board discusses budget formulation and management. In the period under review, the Board continued to review missions' budget formulation processes to determine whether the 2011/12 budget for missions had been formulated in a realistic and well-justified manner, taking full account of historical trends and foreseeable factors, and whether any improvements could be made to the current budget formulation processes. During its review, the Board identified deficiencies such as: (a) no consideration of a number of key factors in budget formulation, such as non-operational days in setting aviation guaranteed fleet costs and the unaccepted factor in contingent-owned equipment costs; (b) lack of due consideration of historical trends for certain budget assumptions, including budgeted flight hours in aviation costs; and (c) the need for improved guidance in certain areas, such as clear criteria for choosing between outsourced and in-house construction approaches. Taken together, the Board indicates that the above deficiencies in budget formulation and management account for a potential overestimation of the 2011/12 budget of some $144.5 million, as summarized in table II.4 of its report.

19. **The Advisory Committee notes that the potential overestimation of $144.5 million indicated by the Board is drawn almost entirely from the budget of the African Union-United Nations Hybrid Operation in Darfur (UNAMID). While the Board contends that its findings on UNAMID are indicative of most missions, the Committee is of the view that an analysis such as this one would have benefited from a broader sample of peacekeeping missions.** The Committee comments further on budget formulation and management in its report on cross-cutting issues related to United Nations peacekeeping operations (A/67/780).

20. With regard to the standard rate of fuel usage (fuel usage per hour), the Board's analysis of 23 aircraft in 2011/12 showed that actual fuel consumption in 2011/12 varied significantly from the standard fuel consumption rates set by Headquarters. According to the Board, these significant variances suggest that standard rates do not reflect the specific situation on the ground. The Board also found that the impact of such variances (between standard rates and actual

[1] African Union-United Nations Hybrid Operation in Darfur (UNAMID), United Nations Integrated Peacebuilding Office in the Central African Republic (BINUCA), United Nations Interim Security Force for Abyei (UNISFA), United Nations Mission in the Central African Republic and Chad (MINURCAT), United Nations Mission in South Sudan (UNMISS), United Nations Office in Burundi (BNUB), United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO) and United Nations Support Office for the African Union Mission in Somalia (UNSOA).

[2] United Nations Office for West Africa (UNOWA), United Nations Integrated Peacebuilding Office in Guinea-Bissau (UNIOGBIS), United Nations Integrated Peacebuilding Office in Sierra Leone (UNIPSIL), United Nations Mission in Liberia (UNMIL), United Nations Mission for the Referendum in Western Sahara (MINURSO), United Nations Operation in Côte d'Ivoire (UNOCI) and United Nations Regional Office for Central Africa (UNOCA).

consumption) in some missions may be partially offset by variances in other missions, thus reducing their effect on the overall budget of peacekeeping operations. For example, in its analysis of 10 missions in 2010/11, the Board had identified cases of consumption exceeding budget amounting to 31.2 million litres at 4 missions, partially offset by cases of consumption below budget amounting to 22.9 million litres at 6 missions (A/67/5 (Vol. II), chap. II, para. 107). The Board therefore recommends that the Administration consider the feasibility of applying mission-specific fuel consumption rates, taking into account the historical trends at each mission. The Advisory Committee comments on fuel consumption rates in paragraph 28 below (see also the Committee's report on cross-cutting issues related to United Nations peacekeeping operations (A/67/780)).

Unliquidated obligations

21. The comments and observations of the Board of Auditors on unliquidated obligations are contained in paragraphs 13 to 16 of its report. The Board's analysis of a sample of three missions, UNAMID, the United Nations Mission in South Sudan (UNMISS) and the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO), shows that 42 per cent of the unliquidated obligations were created in the last month of the financial period. The Board also notes that, during the 2011/12 period, an average of 12.9 per cent of all prior-period unliquidated obligations was cancelled. In paragraph 9 of his report on the implementation of the Board's recommendations, however, the Secretary-General indicates that the raising of obligations at year-end often corresponds to the period of time needed to complete complex procurement processes and that costs for items such as troop-contributing country reimbursements are intentionally deferred until year-end to ensure that final obligations for the budget period are accurate. The Advisory Committee notes that for peacekeeping operations as a whole, the level of unliquidated obligations as at 30 June 2012 amounted to $1.02 billion, or 13.5 per cent of total expenditure, down from $1.15 billion, or 15.2 per cent of expenditure, at the end of the preceding period.

22. **While noting the positive trend in the overall level of unliquidated obligations, the Advisory Committee reiterates its concern with respect to the extent of cancellation of prior-period obligations and the continued high level of obligations raised during the last month of the financial period (A/66/719, para. 14). The Committee concurs with the Board's observation that this practice may be an indicator of inadequate budget management. In addition, the Advisory Committee notes that unliquidated obligations, which are a feature of the currently used United Nations system accounting standards, will cease with the adoption of IPSAS because expenditure will be recognized in accordance with the "delivery principle". The Committee further notes that while disbursements and unliquidated obligations are all recognized as expenditure under the United Nations system accounting standards, IPSAS applies the more restrictive "delivery principle", which stipulates the recognition of an expense only after the underlying goods and services have been delivered. The Committee trusts that the Secretary-General is prepared for the impact of this change on the Organization's financial reporting (see also para. 23 below).**

Implementation of the International Public Sector Accounting Standards

23. In paragraphs 19 to 26 of its report, the Board of Auditors expresses its concerns about progress in the implementation of IPSAS. In paragraph 20 of his report, the Secretary-General indicates that a field IPSAS implementation monitoring team is being launched at the Regional Service Centre at Entebbe to monitor the progress of IPSAS activities and provide support to field missions. The Advisory Committee comments further on progress in the implementation of IPSAS in its report on cross-cutting issues related to United Nations peacekeeping operations (A/67/780).

Implementation of the global field support strategy

24. The Board of Auditors discusses its audit of the implementation of the global field support strategy in section C of its report. The Board indicates that, subsequent to its recommendation, proactive efforts have been made to strengthen the management of the project and that a strategic-level end-state vision, overall communication strategy, risk management framework and performance framework are all being developed. The Board further indicates that, during the reporting period, it continued to assess the implementation of the strategy in terms of five key elements: vision, governance, project management, benefits management and cost management. Its observations, which lay out in detail the various weaknesses and deficiencies, are contained in paragraphs 169 to 227 of the report. The Board concludes by expressing the view that these deficiencies, if not properly and quickly addressed, will result in further delays or even failure to maximize the envisaged benefits of the global field support strategy. The Advisory Committee's views and comments on the implementation of the global field support strategy are reflected in its report on cross-cutting issues related to United Nations peacekeeping operations (A/67/780).

Implementation of the recommendations of the Board of Auditors

25. With regard to the implementation of its previous recommendations, the Board notes in paragraph 8 of its report that of the 40 recommendations made for 2010/11, 18 (45 per cent) had been fully implemented and 22 (55 per cent) were partially implemented in the period under review. The implementation rate remained at nearly the same level as the previous year (2009/10), when 44 per cent of the recommendations had been fully implemented and 56 per cent partially implemented. In addition, the Board notes that the Administration improved monitoring of the implementation of its recommendations and reinforced guidance to the missions on issues concerned. Furthermore, the Board notes particular improvements in the area of personnel, where most of its recommendations were implemented. **The Advisory Committee notes the improvements indicated by the Board and expects that this trend will be sustained in future periods.**

26. In paragraph 5 of his report on the implementation of the recommendations of the Board, the Secretary-General indicates that, for the period 2011/12, of the 47 recommendations issued by the Board, 9 have been implemented, 2 have not been accepted and 36 are in progress. The Advisory Committee notes that no target implementation date has been set for six of the recommendations in progress, one of which is the recommendation that the Administration take urgent measures to fill vacancies in peacekeeping operations. The Secretary-General indicates that the

recommendation is of an ongoing nature and the Administration continuously makes efforts to bring the vacancy rates down to within the vacancy factors. Thus, no target date can be set and it is unclear when the recommendation will be considered by the Board as having been implemented. However, the Secretary-General indicates in paragraph 6 of his report that discussions with the Board will continue, with a view to agreeing on the specific measures that need to be taken to ensure full implementation. **The Advisory Committee encourages the ongoing dialogue between the Board and the Administration to facilitate the establishment of target dates for the implementation of the recommendations in progress.**

27. As indicated in the preceding paragraph, two recommendations issued by the Board following the 2011/12 audit were not accepted by the Secretary-General. With regard to the recommendation that non-operational days be given due consideration in estimating aviation costs (A/67/5 (Vol. II), chap. II, para. 105), the Secretary-General indicates that aircraft non-deployment or non-availability due to factors such as extended maintenance periods and crew sickness could not be predicted and there was no consistent level across missions to form a basis for a useful estimate (A/67/741, para. 64).

28. With regard to the recommendation that the Administration consider the feasibility of applying mission-specific fuel consumption rates, taking into account the historical trends at each mission (A/67/5 (Vol. II), chap. II, para. 111), the Secretary-General explains that the current use of standard rates of aircraft fuel consumption in the calculation of aviation fuel budgets is best suited to capture the complexity of United Nations air operations. He further indicates that the Department of Field Support considers the methodology of using standard average rates to be the most appropriate, as it takes into consideration the vast experience gained by the United Nations around the globe in operating the types and models of aircraft in its current fleet (A/67/741, para. 66). **The Advisory Committee recognizes the usefulness of standard rates in the budget process. The Committee expects that every effort will be made to regularly review the fuel standards in order to ensure that all relevant factors and historical trends that have an impact on the standards are reflected therein (see also the Committee's report on cross-cutting issues related to United Nations peacekeeping operations (A/67/780)).**

Official travel

29. In paragraph 156 of its report, the Board notes the efforts made to increase the use of video and teleconferencing services, but also notes that there is no formal travel policy to encourage staff in the use of these technologies as low-cost alternatives to travel. The Board also notes that for most missions, the potential for videoconferencing is not formally taken into consideration before the authorization of travel requests. In paragraph 90 of his report on the implementation of the Board's recommendations, the Secretary-General indicates that he had recommended inclusion in the revised administrative instruction on official travel a provision that required programme managers to certify that due consideration had been given to achieving the purpose of the particular travel through alternative methods, such as video and teleconferencing, or webcasting, before approving any official travel (A/66/676, para. 11). He further indicates that the recommendation is under consideration by the General Assembly.

30. Upon enquiry, the Advisory Committee was informed that while every effort was being made to minimize official travel and rely on more cost-effective video and teleconferencing services, travel continued to be an operational requirement without which the Department of Peacekeeping Operations and the Department of Field Support could not fulfil their mandates to support peacekeeping operations.

31. **The Advisory Committee notes the increased reliance on more cost-effective alternatives in order to reduce requirements for official travel. While the Committee recognizes the continued necessity of travel in the delivery of the Organization's peacekeeping mandate, it remains of the view that requirements in this area should continue to be kept under close review and that maximum use should be made of advances in information and communications technology and other methods of representation to reduce the need for travel (see also the report of the Committee on cross-cutting issues related to United Nations peacekeeping operations (A/67/780)).**